



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 7/31/2002

GAIN Report #RP2054

Philippines

Solid Wood Products

Annual

2002

Approved by:

Michael D. Woolsey

US Embassy

Prepared by:

Perfecto G. Corpuz

Report Highlights:

The slowdown of the U.S. and global economies will dampen demand for forest product imports in 2002. Though an economic improvement is expected this year, its effects on the various Philippine wood consuming sectors are likely to be felt starting 2003.

Increased wood demand by this time coupled with another round of tariff reductions are expected to result in a modest increase in wood imports during the year.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Manila [RP1], RP

Executive Summary

Although official data on forest cover is not readily available, local wood supply is expected to continue declining through 2003. The standing timber in the remaining Philippine forests will likely decline during this period and the number of local sawmills and wood processing facilities expected to decrease. Although tight domestic wood supplies coupled with the expected economic improvement through 2003 represent positive prospects for increased forest product imports, imports are expected to remain fairly flat this year as the market slowly recovers.

Though some wood-using sectors, the construction and furniture and interiors sectors in particular, are expected to register some growth this year, a considerable rise in the GOP's budget deficit this year coupled with the deterioration in private investor confidence are likely to dampen prospects for increased wood use this year. Effects of a recovery of the global economy late this year is also expected to be felt only sometime in 2003. Wood imports, in general terms, are expected to increase modestly only during this time. The import rise will also be enhanced by another round of tariff reductions for forest and wood products in 2003.

It should be noted, however, that the growth in forest products imports are threatened by the increasing availability and therefore competition by cheaper non-wood substitutes in virtually all wood-using sectors. Although apparent only in recent years, this development is expected to enhance the already apparent shift away from the use of wood. This shift should be more pronounced in 3-5 years time.

Production

The Department of Environment and Natural Resources - Forest Management Bureau (DENR-FMB) has yet to release its final 2001 forestry statistics and the majority of the numbers reported are based on final 2000 estimates from the DENR-FMB and/or extrapolated figures by Post.

Philippine forest area is estimated to be at 5.20 million hectares in 2001 or slightly below 18 percent of the 30 million hectares total land area of the Philippines. This figure remains unchanged from the previous annual report (refer to RP1030) as a result of an on-going assessment of the current status of Philippine forests being undertaken by the National Mapping and Resource Information Authority (NAMRIA). As a result of the adjustments, areas covered by forests and alienable and disposable lands are expected to increase. Pending results of the assessment by the NAMRIA, however, the type of forest (dipterocarp, old growth, etc.) and their corresponding areas are assumed to be same compared to their 2000 estimates.

Although forest area in 2001 is assumed to be equivalent to their 2000 level, the estimated volume of standing timber in commercial forests is expected to be lower on account of the continued and excessive cutting of trees. Provided below are post's estimates on standing timber in 2001 which represent a decline in standing timber in all forest types except those from old-growth or virgin forests. With no significant advances in reforestation efforts, this decline in timber is expected to extend through 2003.

VOLUME OF TIMBER IN COMMERCIAL FOREST - 2001					
	(IN 1,000 CUM)				
Forest Type	Hardwoods	CFW*	Softwoods	Others	TOTAL
Dipterocarp					
Old-Growth	113,805	60,870	2,775	21,342	198,792
Residual	165,000	105,000	3,500	40,000	313,500
Pine	75	20	20,000	30	20,125

*CFW - Construction and furniture wood

Source: Post Estimates

A total of 28,000 hectares were reforested in 2000 according to data from the DENR-FMB with about 22,000 hectares or 79 percent of the total area reforested undertaken by the government. A total of 6,000 hectares were planted by the private sector during the year. Area reforested in 2001 is expected to lower that the 2000 due to military operations in the Southern part of the country but expected to recover and increase in 2002.

Recently, Finland and the Netherlands reportedly have expressed interest in a major 10-year reforestation program in the mountains of Luzon and the Visayas. According to House Speaker Jose de Venecia, the 10 year program will be financed with medium-term loans from Finland and the Netherlands and will seek to replant an estimated 400,000 hectares of denuded mountains in the provinces of Ilocos Norte, Pangasinan, Zambales, Bataan, Cagayan Valley, Bicol Peninsula, Leyte, Samar, Cebu and parts of the Panay islands.

AREA REFORESTED (IN HAS.)			
	GOP	Private	
Year	Agencies	Sector	TOTAL
2000	21,740	5,892	27,632
2001	15,000	5,000	20,000
2002	20,000	10,000	30,000

Source: DENR -FMB and Post estimates

The number of logging concessionaires or Timber Licence Agreement (TLA) holders in 2000, both active and inactive, declined to 19, marginally down from 20 from the previous year based on DENR-FNB records. The TLA holders covered an area of 0.9 million hectares, with an annual allowable cut (AAC) of 0.8 million cubic meters. For 2001 through 2003, the number of TLA holders as well as their coverage and their AAC's are again likely to decrease.

1998-2003 PHILIPPINE ROUNDWOOD SITUATION		
(1,000 Has., 1,000 CUM)		
	Forest	Roundwood
Year	Area	Harvest
1998	5,350	690
1999	5,250	568
2000	5,200	384
2001*	5,200	350
2002*	5,200	325
2003*	5,200	310

Source: DENR-FMB and Post estimates

Consistent with the reported decline in the volume of timber in commercial forests through 2001, roundwood production is expected to lower. According to data from the DENR-FMB, sawlog/veneer log production in 2000 declined to 384,000 CUM from 568,000 CUM the previous year. Post estimates sawlog/veneer log production in 2001 to decline to around 300,000 CUM. The drop in log production is expected to continue at a slower rate in the next 3-5 years as production reaches very low levels. As a result, sawmills and wood processing factories are likewise expected to gradually decline

Based on DENR-FMB data, in 2000, there were only 45 active sawmills left, down from 51 the previous year, with a daily rated capacity (DRC) of 2,015 CUM and an annual log requirement of 743,000 CUM. During the same year, veneer plants remain unchanged from the previous year at 19 factories with a DRC of 934 CUM and an annual log requirement of 557,000 CUM. Plywood plants, on the other hand, numbered 27 in 2000, down from 31 in 1999. The plywood plants had a combined DRC of 1,803 CUM requiring around 1.22 million CUM. Veneer and plywood processing plants are expected to further decline through 2003 due to scarcity of domestic wood supplies.

Trade

For the third consecutive year, imports of forest products again contracted in 2001 mainly due to weak demand brought about by the continued volatility of the Peso against the US\$. In 1999, the US\$ was equivalent to P39.09; in 2000 it was P44.19; and last year it rose to around P50.99. For the majority of 2002, the Peso has remained fairly stable hovering at a rate of P51 to a US\$.

Imports of logs, lumber, veneer and plywood reached 998,000 CUM in 2001 for a 6 percent decline from 1,065,000 CUM in 2000. Imports in 2001 were valued at US\$137 million, down 7 percent from the US\$148 million import level realized the year before. The volume of exports, on the other hand, declined by 12 percent from 136,000 CUM in 2000 to 120,000 CUM in 2001. In terms of value, exports reached US\$21 million in 2000 for a 24 percent decline

from the US\$27 million export level the previous year.

An import summary for logs, lumber, veneer and plywood from 1999-2001 is provided below while more detailed trade matrices are provided in the Statistical Section.

PHILIPPINE IMPORTS OF WOOD PRODUCTS					
(in Cubic Meters)				% Change	
	1999	2000	2001	99/00	00/01
Total Logs	544,600	577,306	542,261	6.01	-6.07
Softwood	25,911	41,420	53,404	59.85	28.93
Hardwood	518,689	535,886	488,857	3.32	-8.78
Tropical Hardwood	514,311	534,962	483,819	4.02	-9.56
Temperate Hardwood	4,378	924	5,038	-78.89	445.24
Total Lumber	380,978	359,766	370,809	-5.57	3.07
Softwood	45,508	47,076	90,921	3.45	93.14
Hardwood	335,470	312,690	279,888	-6.79	-10.49
Tropical Hardwood	322,416	305,587	265,851	-5.22	-13.00
Temperate Hardwood	13,054	7,103	14,037	-45.59	97.62
Total Veneer	146,414	123,054	77,059	-15.95	-37.38
Softwood	7,534	14,654	4,081	94.50	-72.15
Hardwood	138,880	108,400	72,978	-21.95	-32.68
Tropical Hardwood	138,322	107,739	72,512	-22.11	-32.70
Temperate Hardwood	558	661	466	18.46	-29.50
Total Plywood	4,879	4,872	8,242	-0.14	69.17
Softwood	0	0	0	N/A	N/A
Hardwood	4,879	4,872	8,242	-0.14	69.17
Tropical Hardwood	4,522	4,322	7,741	-4.42	79.11
Temperate Hardwood	357	550	501	54.06	-8.91
Total Imports	1,076,871	1,064,998	998,371	-1.10	-6.26

Source: National Statistics Office

Log imports declined by 6 percent from 577,000 CUM in 2000 to 542,000 CUM in 2001 despite a 29 percent increase in softwood log imports during the latter year. Hardwood log imports contracted 9 percent from its 2001 level with tropical hardwood logs accounting for 99 percent of all hardwood logs imported during the year. New Zealand,

the Solomon Islands and Indonesia were the three most dominant sources of tropical hardwood logs ranked in that order while New Zealand continued to be the top supplier of softwood logs.

While overall log imports declined last year, sawnwood or lumber imports increased slightly (3 percent) from 360,000 CUM in 2000 to 371,000 CUM during the period. Of all lumber imported in 2001, 57 percent originated from Malaysia followed by the U.S. which had a 13 percent share of all lumber imports. Temperate hardwood lumber imports last year mostly came from Canada which had a market share of 93 percent of all temperate hardwood lumber imports. Softwood lumber imports increased significantly (93 percent) while imports of hardwood lumber shrank by 13 percent compared to last year's level. Despite the contraction, tropical hardwood lumber from the U.S. increased 26 percent to gain a larger share of the market. Lumber remains to be the largest forest product imported by the Philippines from the U.S.

For veneer, imports in 2001 again contracted (37 percent) from last year's level of 123,000 CUM to 77,000 CUM. Hardwood veneer imports declined by 33 percent while softwood veneer imports grew by 72 percent. Temperate hardwood veneer imports remains insignificant (0.6 percent) relative to total veneer imports.

The decline in veneer imports in 2001 enhanced increased plywood imports during the year. Plywood imports in 2001 grew from 4,900 CUM in 2000 to 8,200 CUM last year for a significant 69 percent growth. Plywood imports during the year were assumed to be all hardwoods in cases that trade data did not specify the face veneer. Plywood imports during the year were again dominated by Malaysia which accounted for 81 percent of all plywood imports. New Zealand followed Malaysia with a 70 percent share of all plywood imports.

In general terms, imports of forest products are predicted to remain flat this year as the wood products market contracts due to the economic slowdown. Imports the following year are likely to recover and increase from its previous year's level in view of a more stable political environment and the resulting economic improvement. Complementing the import rise will be another round of tariff reductions scheduled in 2003.

Tariffs

Provided below are tariffs through 2004. In general terms, duties for wood and wood products will go down in 2002 from their 2001 levels (refer to RP9030). It should be noted that the recent reduction in tariffs have failed to raise imports for the past 3 years.

PHILIPPINE TARIFF SCHEDULE FOR SELECTED WOOD PRODUCTS				
HS Code	Description	Rate of Duty (%)		
		2002	2003	2004
4401	Fuelwood	3	3	3
4403	Roundwood	Free	Free	Free
4404	Hoopwood for tool			
	handles, sticks, etc.	3	3	3
4405	Wood wool	1	1	1
4406	Railway ties/sleepers	3	3	3

4407	Sawnwood exceeding			
	6 mm (Tropical hardwood)	7	5	5
44071000	Coniferous sawnwood	3	3	3
4408	Veneer sheets less			
	than 6mm thickness	7	5	5
44081010 &	Coniferous and wood			
44089010	slats for pencils	3	3	3
4409	Mouldings	5	5	5
4410	Particleboard	15	10	5
4411	Fiberboard	15	10	5
4412	Plywood and other			
	wood panels	15	10	5
4413	Densified wood and	3	3	3
	wood blocks			
4414	Wooden frames for			
	paintings	7	5	5
4415	Packing cases, boxes,			
	pallets, etc.	7	5	5
4416	Casks, barrels, vats,			
	tubs, etc.	3	3	3
44160090	Others	5	5	5
44170010	Boot or shoe lasts	3	3	3
44170090	Others	7	5	5
4418	Builders joinery and			
	carpentry of wood	5	5	5
4419	Tableware/kitchenware	5	5	5
4420	Wood marquetry and			
	inlaid wood	7	5	5
4421	Other articles of			
	wood	7	5	5
44219010	Spools, bobbins, etc.	3	3	3

Source: Tariff and Customs Code of the Philippines, June 2002

Market Segment Analysis

Major and rapid political changes for the majority of CY 2001 amid the deterioration of the international business environment resulted in a general atmosphere of uncertainty and caution among the major wood consuming sectors.

Philippine GDP last year, however, still managed to grow 3.4 percent exceeding earlier GOP forecasts although lower than the 4.0 GDP expansion in 2000. Internationally, the Philippines was the third best performing economy in Asia and the best in the region. Agriculture and the services sector fueled the economic growth last year. Inflation last year was recorded at 6.1 percent with personal consumption spending increasing by 3.4 percent.

Despite the slowdown of the global economy, government planners predict Philippine GDP in 2002 to grow by 4.0 to 4.5 percent with inflation expected to fall within a range of 4.5 to 5.5 percent. The Embassy in Manila, however, projects GDP to fall within the lower 3.5 to 4.5 percent range while inflation predicted at 4.8 to 5.2 percent.

The Asian Development Bank (ADB) also forecasts the Philippine economy to grow at a lower 4 percent in 2002. The growth will be fueled by higher private consumption and improved exports, according to the ADB. For 2003, the ADB expects GDP to increase to 4.5 percent as the world economy recovers and domestic fiscal reforms begin to take effect. Inflation is expected to remain stable at 5 to 6 percent in 2002-2003, according to the ADB.

For the first quarter of 2002, the Philippine economy expanded by 3.8 percent, up from the 2.9 percent growth the previous year as robust consumer spending perked up the services and agricultural sectors. The continued influx of dollar remittances from overseas workers boosted the GNP growth for the same period to a higher-than-expected 4.9 percent from only 3.4 percent a year ago.

PROJECTIONS FOR SELECTED ECONOMIC INDICATORS						
				2000	2001	2002
GDP Growth (Year-on-year, %)				4.0	3.4	3.5-4.0
GNP Growth (Year-on-year, %)				4.5	3.7	3.9-4.3
Ave. Year-on-Year Inflation				4.4	6.1	4.8-5.2
Ave. Forex Rate (Peso/US\$)				44.19	50.99	51.60-52.25

*Embassy Projections as of March 2002

Note: Indicators for 2000 and 2001 are final estimates.

Sources: National Economic and Development Authority and Bangko Sentral ng Pilipinas,
Bureau of Treasury

A. Construction Sector

After four consecutive years of decline, the construction sector finally recorded a slight increase (1.8 percent) last year. This is mirrored by the slightly higher number of building construction during the year. According to data from the National Statistics Office (NSO), there were more constructions (11 percent) of both residential and nonresidential structures covering a wider floor area in 2001 than the previous year. Structures that underwent new additions and alterations were also up 10 percent. The value of the new construction as well as the new additions and alterations, however, was lower in value last year compared to the 2 immediate previous years. This infers that cheaper non-wood construction materials were used last year.

BUILDING CONSTRUCTION: 1999-2001												
(Value in million Pesos, floor area in thousand sq.m.)												
CY	Residential			Non-Residential			Additions & Alterations			TOTAL		
	No.	Flr.	Val.	No.	Flr.	Val.	No.	Flr.	Val.	No.	Flr.	Val.
		Area			Area			Area			Area	
1999	53,454	5,814	26,880	8,728	5,122	35,864	16,687	575	6,845	78,869	11,510	69,589
2000	47,911	4,989	24,597	7,647	5,115	37,108	14,878	517	8,157	70,436	10,620	69,863
2001	52,980	6,110	29,648	8,500	4,652	30,339	16,377	626	8,214	77,857	11,388	68,201

Source: National Statistics Office

For 2002, Department of Trade and Industry (DTI) Undersecretary Thomas G. Aquino projects construction to accelerate by 4.4 percent as he spoke before foreign investors during the opening of the Philippine World Building and Construction Exposition last March. The trade department reportedly has identified the construction material sector as one of ten priority trade and investment areas. The GOP has identified 33 infrastructure projects that will make tourist destinations around the country more accessible.

The growth of the sector will largely be determined by the amount of investments in construction which is expected to exceed the P100 billion (\$1.96 billion) mark this year, according to Mr. Aquino. The infrastructure projects are to be implemented under the build-operate-transfer (BOT) scheme between the GOP and the private sector. The cautious stance by private investors coupled with the GOP's budget deficit rise, however, will likely hinder any growth in the sector this year. A recent projection by the GOP estimates the Philippines budget deficit for this year at P163 billion (\$3.2 billion) should there be no major cuts in government spending. The projected 2002 deficit reportedly was made after the GOP surpassed its first semester goal by more than 50 percent at P120 billion (\$2.35 billion).

In the area of housing, the Housing and Urban Development Coordinating Council (HUDCC), the GOP's highest policy making body, estimate the country's total housing needs from 2001-2004 at about 3.6 million units comprising of a backlog of 1.8 million units, 1.5 million new households and another 214,000 units that are substandard and needs upgrading. The majority of the housing requirements are concentrated in Metro Manila and its surrounding regions. The HUDCC reports that the sluggishness of the real estate industry is reflected by the relatively low utilization of development financing. The HUDCC attributes this to the general slowdown in housing activity, decline in housing demand, stringent requirements, etc.

From 2000 to 2004, the HUDCC aims to house 1.2 million families or an annual average of 300,000 families. About 73 percent of its overall target is for socialized housing where the use of wood as a housing material is quite minimal. The remaining 27 percent is for economic and high-end housing. This mix, according to HUDCC Chairman Mike

Defensor mirrors the actual demographic need. As of the end of June 2002 or its first year of operation, the HUDCC reported that 338,858 families were given secure tenure or housing rights. This figure, however, does not represent actual houses built.

The HUDCC offers the following loan packages through its house-lending program:

1. Socialized - housing loans of up to P180,000 (\$3,530) at an interest rate of 9 percent p.a.
2. Low Cost - above P180,000 but not to exceed P500,000 (\$9,804) at interest rate of 12 percent p.a. for housing loans up to P250,000 (\$4,902) and 16 percent for those over P250,000 (\$4,902) up to P500,000 (\$9,804).
3. Middle- housing loans over P500,000 (\$9,804) up to P2 million (\$39,216). These housing loans are charged with prevailing market rates.
4. High - for housing loans from P2 million (\$39,216) to P5 (\$98,039) million at prevailing market rates.

There are other housing loans that offer competitive rates and coverage. One of the lowest interest rates is offered through the Government Service Insurance System's (GSIS) Bahay Ko loan program, geared primarily for government workers. The rate is only 8 percent on P180,000 (\$3,539) and below loan package (socialized housing); and 10 percent on P181,000 (\$3,550) - P300,000 (\$5,882) loan, and 12 percent on P300,000 (\$5,882) - P500,000 (\$9,804) loan (both are non-socialized packages). Unlike some private bank loans, the GSIS rates are not subject to repricing. The rates are even better than the Pag-Ibig fund's, which collects a 9 percent interest for socialized loan packages, and from 12 -14 percent for the non-socialized housing loan packages. The Pag-Ibig, though grants loans of up to P2 million (\$39,216) to its members. Any member can apply for as long as he has made at least 24 monthly contributions.

MetroBank's Metro-Home Financing (MetroBank), like most home loans, can be used for the purchase of a lot and house construction or purchase of a townhouse, purchase of a condominium or a lot, house renovation and refinancing. MetroBank offers interest rates that may be fixed for the first year, first two years, three years, four or even five years. Payment terms are up to 20 years for the purchase of house and lot or townhouse, 15 years for purchase of condominium, refinancing and home renovation, and 10 years for lot purchase. An individual may borrow up to 70 percent of the property's appraised value, from P500,000 (\$9,804) to P1,000,000 (\$19,608).

Regarding payment terms, PSBank's Home Free Loans offer payment terms up to 30 years. An ongoing promotion involves paying only the interest on the first five years, upon loan maturity, the borrower may get back his principal payments in full.

Meanwhile, home loans by the Rizal Commercial Banking Corp. (RCBC) through its RCBC Real Estate Loan provide borrowers with an option to avail of a grace period on payments up to 12 months for the first year of their loan. Borrowers may even get an additional cash loan using their real estate as collateral.

While the market is awash with home loans that offer liberal rates and coverage, availing of them has been below expectation - indicative of the prevailing position of caution adopted by the market. In addition, high unemployment rate (estimated at 11 percent) and widespread poverty simply does not make home ownership feasible to a great majority of Filipinos. The World Bank says more than 45 percent of the Philippine population of about 80 million live on \$2 a

day or less while the GOP says the poverty level - or subsistence on less than a dollar a day- stands at 40 percent of the population.

Retail prices of selected construction materials for December 2001 and March 2002 are provided below. Prices were generally mixed for plywood while tanguile lumber prices generally declined in March 2002 compared to their December 2001 levels.

RETAIL PRICES OF SELECTED CONSTRUCTION MATERIALS							
December 2001 vs. March 2002							
					2001	2002	Price
	Item				December	March	Change
							(%)
Rough Tanguile Lumber SD,42mmX52mmX3mm					24.00	22.00	(8)
S4S Tanguile Lumber SD,42mmX52mmX3m					25.00	23.00	(8)
Washed Sand or S1					350.00	350.00	0
Portland Cement					130.00	135.00	4
Plywood Ordinary,5mmX1.2mmX2.4m					240.00	230.00	(4)
Plywood Ordinary,10mmX1.2mX2.4m					470.00	480.00	2
Conc. Hollow Blocks(non-load)							
100mmX200mmX400mm					6.50	6.50	0

Source: Construction Industry Authority of the Philippines

The use of non-wood materials, cement in particular, continue to dominate construction and housing materials largely due to its durability and permanence. Local cement manufacturers, however, are facing stiff competition from cheap imported cement from Taiwan, Indonesia and Japan. Late last year, there were around 17 local cement manufacturers and about 9 cement importers which reportedly have captured as much as 35 percent of the local market. Local manufacturers claim that importers use dubious means to eliminate competition such as dumping, price manipulation and speculation. In response, the Department of Trade and Industry (DTI) last November 2001 imposed a provisional tariff of P26.60 (\$0.52) per 40 kilo-bag of imported cement pending an investigation and resolution by the Philippine Tariff Commission (TC) on the case. The order took effect December and was good for only 200 days. The DTI's imposition of a provisional tariff effectively stopped cement imports. Local cement producers had also requested for a special safeguard tariff. The application for a safeguard tariff, however, was subsequently rejected by the TC last March after it was found out that the industry had not suffered any serious injury. Prices of cement shortly thereafter increased.

With prices of wood materials comparatively high, the market recently has been warned on the proliferation of cheap fake wood products. The Bureau of Product Standards of the DTI recently warned consumers about fake plywood being sold in Metro Manila and other urban centers which are thinner and smaller and below standards set by the government. The fake wood products reportedly easily warp at the slightest exposure to inclement weather.

B. Furniture and Interiors Sector

Although data on Philippine furniture is not readily available, the decline in Philippine furniture exports last year infers that production in 2001 declined from its year ago level. Total Philippine furniture exports last year were 22 percent lower than the value of furniture exports in 2000. Wooden furniture and those made from rattan, the top 2 furniture exports, both declined 19 and 22 percent, respectively. Only furniture of other materials and furnishings exhibited growth rates again a manifestation of increased non-wood use. The contraction of furniture exports is attributed to the global economic slowdown as well as increased competition from other Asian furniture exporting countries.

PHILIPPINE EXPORTS OF FURNITURE BY MATERIAL TYPE				
FOB VALUE IN US\$ MILLION				
				%
	1999	2000	2001	Change
Rattan	112.89	118.02	91.98	-22.07
Wood	132.67	143.30	114.85	-19.85
Metal	43.95	49.44	39.84	-19.42
Stone	13.46	9.09	8.67	-4.58
Parts of Furniture	42.22	53.31	28.36	-46.80
Buri Furniture	0.25	0.46	0.16	-65.08
Furnishings	1.45	1.71	5.80	238.51
Bamboo	2.67	3.18	2.92	-8.19
Plastics	0.49	0.72	0.61	-15.86
Others	2.9	2.16	3.51	62.38
TOTAL	352.95	381.40	296.70	-22.21

Source: Chamber of Furniture Industries of the Philippines

The top export destinations of Philippine furniture continue to be the U.S. and Japan. Last year, the U.S. accounted for 62 percent of all furniture exports while Japan had a 9 percent export share. Local manufacturers have also initiated started marketing operations in Europe. In general terms, the domestic industry is focusing their marketing efforts to the medium and high-end market segments emphasizing uniqueness of design and quality.

Scarcity of local hardwoods are making the use of softwoods popular in the local furniture industry. The use of radiata pine in particular, according to the June 2001 issue of Panels and Furniture Asia (PFA), is increasing in the region as manufacturers in these countries reportedly are responding to the demands of their customers from the Northern hemisphere. The main drivers to this demand, according to the PFA, are a combination of environmental (certification, plantation grown) demands and customer preference. Beginning August 2002, Trade New Zealand reportedly will host workshops in Southeast Asia to help pine users with their marketing.

Most exporters ship their finished goods to importers and wholesalers who in turn deliver the goods to middle and high-

end retailers, department stores and specialty shops. Other exporters have their own sales agents in the market. Interior design offices and contractors have likewise become important clients through a contracting arrangement.

PHILIPPINE EXPORTS OF FURNITURE BY DESTINATION				
FOB VALUE IN US\$ MILLION				
				%
	1999	2000	2001	Change
U.S.	204.15	225.41	184.49	-18.15
Japan	43.02	54.32	26.97	-50.35
France	11.55	11.07	7.87	-28.91
Netherlands	11.19	10.86	7.08	-34.81
U.K.	10.45	10.03	9.06	-9.67
Australia	10.37	9.09	5.92	-34.87
Spain	5.39	5.95	5.77	-3.03
Other	56.83	64.28	49.54	-22.93
TOTAL	352.95	381.40	296.70	-22.21

Source: Chamber of Furniture Industries of the Philippines

The furniture and interiors sector has been identified as the market segment which offer the most positive prospects for increased U.S. wood utilization. Its consistent dollar contribution to the Philippine economy has made it a flagship program in the GOP's medium-term development plan for 2000-2004. Last year, the sector comprised 15,000 establishments, majority of which are classified as small to medium-scale in size. These establishments are found in 3 main furniture clusters: Manila, Cebu, and Pampanga. It is in Cebu where the larger and export-oriented firms are mostly located. For the period 200-2001, total overseas investments to the sector reached an estimated \$297 million. Investments mainly came from the U.S., Japan, Taiwan, Malaysia and the U.K.

Industry contacts believe the export decline is temporary and expects a recovery in the second half of 2002. This optimistic outlook, however, has to contend with the growing competition from other countries such as China, Vietnam, Malaysia and Thailand which offer very competitive prices due to comparatively cheaper labor wages. Some local manufacturers have reportedly relocated operations already as a result. Availability of cheaper raw materials also continues to be a major problem of the industry and furniture firms have broadened their product range to include pieces using plantation species, the most popular being Gmelina and rubberwood. The use of particle boards and medium density fiberboard for panel and office furniture are also gaining popularity as a result of comparatively higher solid wood prices. A top priority among manufacturers is the retooling and modernization of facilities including training of manpower resources. Wood use by Philippine furniture sector will likely exhibit minor growth only in 2003.

C. Utilities Sector

Early this month, the oversight committee of the House of Representatives reported that the government substantially

complied with 22 of 35 of its commitments during the President Gloria Macapagal-Arroyo's State of the Nation Address (SONA) last July 2001. Electrification of over 1,500 barangays was included in the substantial compliance list of the oversight report. This achievement fared much better than the 101 barangays reportedly "energized" during the term of former President Joseph E. Estrada, 46 barangays during the time of Fidel V. Ramos and 39 barangays during the Corazon C. Aquino administration.

Despite the better electrification performance last year, however, imports of utility poles have been declining since 1999 when utility pole imports reached 39,000 CUM. Imports the following year fell 73 percent to 10,454 CUM and again declined 13 percent to 9,066 CUM in 2001. Utility pole imports last year were valued at \$1.0 million, down from \$1.6 million the year before.

More significant is the President's report in her recent 2002 SONA over a week ago that her government has successfully reduced power rates. Prior to her Administration, the Philippines had the second most expensive power rate in Asia. A year under her leadership, the Philippines is now ranked six.

Despite the above achievement of the government, electrification still has not reached a significant number of Filipinos. In a new United Nations Report called Asia-Pacific Forestry Towards 2010, it was reported that fuelwood activities in the Philippines continue to be the main source of income for 10 percent of rural households. Wood and charcoal are used to stew, boil, grill or fry meals.

Meanwhile, last September 2001, U.S. firm Mirant Corporation reportedly has advanced P1 billion (\$19,607,843) to fund the electrification of at least 1,000 barangays nationwide. A Memorandum of Agreement was reportedly signed by Energy Secretary Vincent S. Perez Jr., Frederick D. Kuester, Mirant Managing Director and Chief Executive Officer for Asia Pacific; Jesus N. Alcorido, President of the National Power Corporation; Manuel Luiz Sanchez, outgoing Administrator of the National Electrification Administration and representatives of some 30 electric cooperatives.

D. Materials Handling Sector

The industrial sector, which account for manufacturing, construction and mining, slowed 2.2 percent last year from its 3.6 growth rate in 2000 mainly due to the decline in investments to the sector. Foreign direct investments have been on the decline since 1999 when inflows peaked at \$2.1 billion. Investments the following year fell to \$1.4 billion and in 2001 to \$860 million. First quarter of 2002 shows a small improvement, with inflows of \$180 million versus a \$103 million the previous year. The U.S. is the Philippines largest investor with an estimated 24 percent of the country's foreign direct investment stock last year.

The guarded stance which foreign and domestic investors have taken this year is likely to limit any significant industrial growth in 2002. This observation is validated by recent statistics which show that average capacity utilization rate - the ratio of production output to the rated capacity of a plant - ended at 7.53 percent in April, slightly lower than the 75.9 percent posted a month ago. For this year, government analysts are projecting the sector to grow 3.3 to 3.7 percent as manufacturing receives a boost from a predicted recovery in export demand during the second half of 2002.

E. Export Sector

The slowdown of the U.S. economy and globally in 2001 dampened demand for Philippine information technology

manufactures - a significant export of the country. Although exports have been slack up to the first quarter of 2002, the Philippine government has made upward revisions to its target export growth. Originally projected to stay flat, the GOP has revised its target export growth this year to 4 percent. In April, Philippine exports rose for the first time in 14 months due to stronger demand for electronic goods. The latest government data show export revenues increasing by 22.4 percent in April this year from the same period last year. The Technical Working Group of the Development Budget Coordination Committee reportedly has recommended the revision in export and import growth targets for the year to 4 percent and 6 percent, respectively, according to documents from the Department of Finance. Prospects for Philippine exports and investments have improved on expectations of a second-semester U.S. led global recovery and generally more affordable domestic financing costs.

In addition to the general incentives available to Board of Investment (BOI)-registered companies, a number of incentives provided under Book I of the Omnibus Investment Code apply specifically to registered export-oriented firms. These include:

1. Tax credit for taxes and duties paid on imported raw materials used in the processing of exported products;
2. Exemption from taxes and duties on imported spare parts (applies to firms exporting at least 70 percent); and
3. Access to customs bonded manufacturing warehouses.

Statistical Information

Mainly due to the delay in updated Philippine forestry statistics, forest and wood products production numbers in the PSD tables are all Post estimates while 2001 trade figures are official preliminary GOP numbers from the National Statistics Office (NSO).

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Logs			1000 CUBIC METERS		
	Revised		Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	180	180	180	175	0	170
Imports	500	484	550	484	0	490
TOTAL SUPPLY	680	664	730	659	0	660
Exports	0	0	0	0	0	0
Domestic Consumption	680	664	730	659	0	660
TOTAL DISTRIBUTION	680	664	730	659	0	660

Import Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Logs		
Time period	Jan - Dec	Units:	K CUM
Imports for:	2000		2001
U.S.		U.S.	
Others		Others	
New Zealand	174	New Zealand	214
Solomon Islands	142	Solomon Islands	124
PNG	83	Indonesia	75
Malaysia	65	Malaysia	33
Indonesia	43	PNG	25
South Africa	6		
Australia	5		
Singapore	4		

Brazil	3		
Total for Others	525		471
Others not Listed	10		13
Grand Total	535		484

Source: National Statistics Office

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Lumber			1000 CUBIC METERS		
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	200	200	190	195	0	190
Imports	270	266	300	266	0	270
TOTAL SUPPLY	470	466	490	461	0	460
Exports	100	97	110	90	0	85
Domestic Consumption	370	369	380	371	0	375
TOTAL DISTRIBUTION	470	466	490	461	0	460

Import Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Lumber		
Time period	Jan - Dec	Units:	K CUM
Imports for:	2000		2001
U.S.	27	U.S.	35
Others		Others	
Malaysia	231	Malaysia	193
Brazil	30	Brazil	14
New Zealand	10	New Zealand	14
Australia	4	Solomon Islands	6
PNG	2	Indonesia	2

Total for Others	277		229
Others not Listed	2		2
Grand Total	306		266

Source: National Statistics Office

Export Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Lumber		
Time period	Jan-Dec	Units:	K CUM
Exports for:	2000		2001
U.S.	1	U.S.	
Others		Others	
France	108	France	83
Taiwan	4	Taiwan	6
Canada	4	China	4
Japan	1	Canada	3
Malaysia	1		
Total for Others	118		96
Others not Listed	1		1
Grand Total	120		97

Source: National Statistics Office

PSD Table						
Country	Philippines					
Commodity	Hardwood Veneer			1000 CUBIC METERS		
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	60	60	70	58	0	58
Imports	100	73	110	72	0	80
TOTAL SUPPLY	160	133	180	130	0	138
Exports	4	3	5	1	0	3
Domestic Consumption	156	130	175	129	0	135
TOTAL DISTRIBUTION	160	133	180	130	0	138

Import Trade Matrix			
Country	Philippines		
Commodity	Hardwood Veneer		
Time period	Jan-Dec	Units:	K CUM
Imports for:	2000		2001
U.S.		U.S.	
Others		Others	
Malaysia	105	Malaysia	71
Solomon Islands	1	Thailand	1

Total for Others	106		72
Others not Listed	2		1
Grand Total	108		73

Source: National Statistics Office

Export Trade Matrix			
Country	Philippines		
Commodity	Hardwood Veneer		
Time period	Jan-Dec	Units:	K CUM
Exports for:	2000		2001
U.S.		U.S.	
Others		Others	
Australia	2	Australia	2
Taiwan	1		
Total for Others	3		2
Others not Listed	2		1
Grand Total	5		3

Source: National Statistics Office

PSD Table						
Country	Philippines					
Commodity	Hardwood Plywood			1000 CUBIC METERS		
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	220	220	240	218	0	218
Imports	4	8	5	8	0	12
TOTAL SUPPLY	224	228	245	226	0	230
Exports	5	7	5	3	0	3
Domestic Consumption	219	221	240	223	0	227
TOTAL DISTRIBUTION	224	228	245	226	0	230

Import Trade Matrix			
Country	Philippines		
Commodity	Hardwood Plywood		
Time period	Jan-Dec	Units:	K CUM
Imports for:	2000		2001
U.S.		U.S.	

Others		Others	
Malaysia	2	New Zealand	3
Hongkong	1	Malaysia	2
Singapore	1	Indonesia	1
Taiwan	1	Singapore	1
Total for Others	5		7
Others not Listed			1
Grand Total	5		8

Source: National Statistics Office

Export Trade Matrix			
Country	Philippines		
Commodity	Hardwood Plywood		
Time period	Jan-Dec	Units:	K CUM
Exports for:	2000		2001
U.S.		U.S.	
Others		Others	
Japan	6	Japan	4
Taiwan	2	Taiwan	2
Australia	1		
Total for Others	9		6
Others not Listed	2		1
Grand Total	11		7

Source: National Statistics Office

